Frequently Asked Questions from 1/26/12 Credit Underwriting Webinar

1. What is the minimum trade line requirement?

If the occupying borrower(s) have credit scores, FHA does not have a minimum trade line requirement. Nontraditional credit references may be used to augment a thin credit file.

When considering Nontraditional credit for borrowers that do not have a credit score, they must have three (3) credit references, including at least one from Group I, covering the most recent 12 months activity. Borrowers with no Group I references must be underwritten using Insufficient Credit guidelines. For complete underwriting requirements see 4155.1, section 4.C.3.a-d or ML 08-11.

2. Please define the guidelines for Short Sale, Deed in Lieu and Foreclosure:

Short Sale: Borrowers are eligible if:

A borrower is not eligible for a new FHA-insured mortgage if he/she pursued a short sale agreement on his/her principal residence simply to take advantage of declining market conditions or purchase a similar or superior property within a reasonable commuting distance at a reduced price as compared to current market value.

A borrower is considered eligible for a new FHA-insured mortgage if, from the date of loan application for the new mortgage, all mortgage payments on the prior mortgage were made within the month due for the 12-month period preceding the short sale and installment debt payments for the same time period were also made within the month due.

A borrower in default on his/her mortgage at the time of the short sale (or pre-foreclosure sale) is not eligible for a new FHA-insured mortgage for three years from the date of the pre-foreclosure sale. A borrower who sold his/her property under FHA's pre-foreclosure sale program is not eligible for a new FHA-insured mortgage from the date that FHA paid the claim associated with the pre-foreclosure sale.

Exception: A lender may make an exception to this rule for a borrower in default on his/her mortgage at the time of the short sale if the default was due to circumstances beyond the borrower's control, such as death of primary wage earner or long-term uninsured illness, and a review of the credit report indicates satisfactory credit prior to the circumstances beyond the borrower's control that caused the default.

Foreclosure/Deed in Lieu:

A borrower is generally *not* eligible for a new FHA-insured mortgage if, during the previous three years his/her previous principal residence or other real property was foreclosed or he/she gave a deed-in-lieu of foreclosure.
The lender may grant an exception to the three-year requirement if the foreclosure was the result of documented extenuating circumstances that were beyond the control of the borrower, such as a serious illness or death of a wage earner, and the borrower has re-established good credit since the foreclosure.
Divorce or the inability to sell the property due to a job transfer or relocation does not qualify as an extenuating circumstance.
For divorce an exception may be granted where a borrower's loan was current at the time of his/her divorce, the ex-spouse received the property, and the loan was later foreclosed.

A mortgage included in a bankruptcy does not negate the foreclosure requirements

3. How many months are required to be verified for a tax lien in a repayment plan?

We do not have a minimum length of time a borrower must be in a repayment plan. It is the lender's responsibility to evaluate the case, verify a repayment plan is in place and the borrower qualifies with the required monthly payment.

4. Do tax liens for Non Purchasing Spouses have to be paid off?

In a community property state, lenders are instructed to disregard the non-purchasing spouse's derogatory credit history which includes judgments and delinquent federal debts identified through the CAIVRS (unless they might automatically attach to the subject property) since it is not a consideration in evaluating the purchasing spouse's qualifications

5. Do student loans have to be counted in the borrower's DTI?

A student loan scheduled to begin or come due within 12 months of the mortgage loan closing must be included in the monthly obligations for qualifying. If the borrower provides written evidence that the debt will be deferred to a period outside the 12-month timeframe, then the lender can omit the obligation.

6. What is contingent liability?

A contingent liability exists when an individual will be held responsible for the payment of a debt, should another party who is jointly or severally obligated, defaults on that payment. For a co-signed obligation, the debt may be excluded from the qualifying ratios, if the borrower is a co-signer or is co-obligated and the lender obtains documented proof the primary obligor has been making payments for the previous 12 months with no history of delinquent payments.
Note: You cannot exclude a debt from the qualifying ratios if the party making the payment is *NOT* co-obligated on the loan. For additional information on contingent liabilities see 4155.1: 4.C.5.a-e.

7. Can revolving debt with <10 months remaining be omitted?

Monthly payments on revolving or open-ended accounts, regardless of their balances, are counted as liabilities for qualifying purposes even if the account appears likely to be paid off within ten months or less.

8. Are Alimony and Child support treated the same way?

Child support is treated as a monthly obligation when calculating the qualifying ratios. Because of the tax consequences for *alimony* payments, the lender may choose to treat the monthly alimony obligation as a reduction from the borrower's gross income in calculating qualifying ratios, rather than as a monthly obligation